

CAPITAL OUTLAY

Capital Outlay Program

The state owns various types of infrastructure to facilitate the delivery of its numerous programs. These facilities vary from 140 higher education campuses with over 11,000 buildings, public safety facilities to incarcerate over 167,000 offenders in 33 adult prisons and 11 institutions for youths, 140 highway patrol offices, 5 facilities for the mentally ill, and 5 centers for the developmentally disabled. In addition, there are 273 park units covering 1.45 million acres and 225 wildlife and ecological reserves covering a million acres. Finally, the state manages over 23 million square feet of office space, one-third of which is owned and two-thirds leased.

Program Enhancements and Other Budget Adjustments

The 2004-05 Governor's Budget proposes \$1.55 billion for the capital outlay program, not including funding for transportation, K-12 schools, and State conservancies (the Business, Transportation, and Housing, Education, and Natural Resources sections describe the funding provided for those programs). Of this amount, \$769.2 million is for continuing phases of 139 previously approved projects, and \$780.8 million is for 141 new projects. Funding for this program comes from a number of sources including the General Fund, various special funds, general obligation bonds, lease-revenue bonds,

Key Audit Findings

- The fundamental review of state government provides the opportunity to evaluate the departmental needs for office space and other programmatic space needs. Recent reductions in the state workforce should result in cost efficiencies from consolidations of space, opportunities for the renegotiation of state-occupied leases as well as potential relocation of offices.
- In addition, recognizing that the current process for the state to identify its unneeded and underutilized properties can be improved, the Administration will explore opportunities to reform the statewide management of assets to ensure that the long-term needs of the state will continue to be met without undue expense.



and federal funds. Of the \$1.55 billion total, the General Fund contributes \$32.6 million, which represents only 2 percent of total capital outlay expenditures. Figure CO-1 summarizes the proposed capital outlay program by agency, and Figure CO-2 summarizes the program by funding source.

FIGURE CO-1

Total Capital Outlay Funding for 2004-2005 by Agency
(Dollars in thousands)

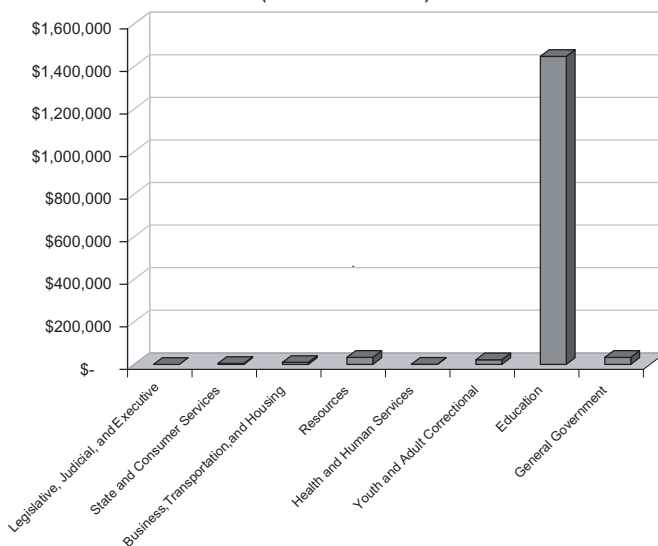
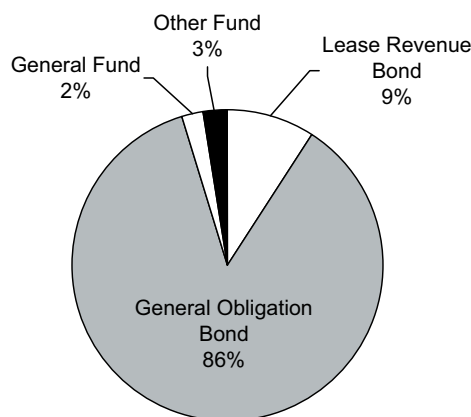


FIGURE CO-2

Capital Outlay by Funding Source



Education

The 2004-05 capital outlay program for education totals \$1.45 billion. All but \$41 million of this funding is proposed from Proposition 55. Proposition 55 is the \$12.3 billion K-12 and higher education facilities bond, which will be on the March 2004 ballot for voter approval. If approved by the voters, the total amount of Proposition 55 available for higher education facilities will be \$2.3 billion to be allocated over the next two years. Of this total, \$690 million will be allocated to each of the University of California and the California State University, and \$920 million will be allocated to the California Community Colleges. The remainder of the \$10 billion is for K-12 facilities which will be allocated by the State Allocation Board. If the bond is not approved at the March election, the statute provides that it will be included on the November 2004 ballot.

California Community Colleges—The Governor's Budget proposes \$617.6 million from general obligation bonds including \$576.2 million from the proposed Proposition 55 bonds. This includes \$236.2 million for 52 new projects in 30 districts and \$381.4 million for 39 continuing projects in 29 districts. These projects will correct seismic deficiencies, provide programmatic upgrades in instructional and library facilities, and construct new classrooms and laboratories to help meet the needs of increased enrollment. New projects include a communication arts building at Cuyamaca College, an agricultural sciences complex at Mt. San Antonio College, library facilities at campuses in the Long Beach Community College District, modernization of classrooms at Fresno City College, and a student services building at Santa Rosa Junior College.

University of California—\$339.4 million of the \$394.4 million is proposed from Proposition 55 bonds. The remaining \$55 million will be provided by lease-revenue bond financing for the construction of a Genomics Building at the Riverside campus. The \$339.4 million in general obligation bonds provides \$274 million for 19 continuing projects and \$65.4 million for 16 new projects at 7 campuses. New projects include physical sciences facilities at Davis and the Engineering Unit 3 at Irvine to accommodate enrollment growth, the Materials Science and Engineering building at Riverside to accommodate program delivery changes, renovation of the UCLA Center for Health Sciences South Tower and the Riverside Geology and Physics building to address code and seismic deficiencies, and the Santa Cruz Digital Arts building and the San Diego Music building to address growth in specialized programs.

California State University—The Governor's Budget proposes \$345 million from the Proposition 55 bonds. This includes funding of \$49.4 million for the continuing phases of seven projects, and \$278.5 million for 13 new projects, and \$17.1 million for minor projects at CSU's 23 campuses. CSU projects include new facilities for the San Bernardino College of Education to accommodate enrollment growth, modernization of science facilities located in Long Beach Peterson Hall on the Long Beach campus, renovation of a former science building on the Pomona campus for reassignment to other academic programs, and seismic renovation of Warren Hall at the Hayward campus.

Department of Education, State Special Schools—\$69.9 million is proposed to replace a dormitory and campus chiller system to address critical infrastructure needs at the California School for the Deaf in Riverside.

Hastings College of Law—The Governor's Budget proposes \$18.8 million for the correction of code and seismic deficiencies in the school's academic and administrative building in San Francisco.

Resources Agency

The 2004-05 capital outlay program for this agency, totals \$34.4 million. Over the past two years, voters have approved two bond measures, Proposition 40 (\$2.6 billion) and Proposition 50 (\$3.44 billion) to address California's water supply needs and protect the state's parks and wildlife habitats. The Administration will be evaluating various alternatives to reorganize and streamline existing resource conservation efforts. Therefore, the Governor's Budget proposes to defer the appropriation of some bond funds until the spring.

Department of Parks and Recreation—\$22.6 million is proposed to come from special funds (\$10.1 million), bond funds (\$8.8 million), and federal funds (\$3.7 million) to continue 5 projects, 1 new project, various minor projects, acquisitions, and budget planning funding. The new project would replace a deteriorating water storage system in order to provide reliable and adequate water supplies for park use and fire protection in the Samuel P. Taylor State Park.

Department of Forestry and Fire Protection—\$9.3 million includes \$5.2 million lease-revenue bonds for 4 continuing projects and \$4.1 million General Fund to renovate a critical telecommunications facility and convert 7 high-priority lease-revenue bond projects to General Fund. This is necessary to overcome issues that prevent debt financing these projects and risk the completion of these critical infrastructure projects.



Department of Boating and Waterways—\$2.3 million is proposed to be funded by the Harbors and Watercraft Revolving Fund for project planning (\$80,000) and a minor capital outlay program (\$2.2 million).

Department of Water Resources—\$270,000 will cover engineering and design activities for the American River Long Term Project, which will raise Folsom Dam by seven feet. General Fund will be redirected from existing flood control projects to provide funding for this purpose.

Department of Fish and Game—\$1.2 million includes \$457,000 Fish and Game Preservation Fund and \$776,000 various special funds for project planning and a minor capital outlay program.

Youth and Adult Correctional Agency

The 2004-05 capital outlay program for this agency, totals \$21.6 million.

California Department of Corrections—The Governor's Budget proposes \$18.8 million from the General Fund for 3 continuing projects and 4 new projects (\$11 million), statewide minor projects (\$5 million), a statewide evaluation of mental health facilities (\$1.8 million), and statewide budget packages and studies (\$1 million). The proposed new projects address water issues at California Men's Colony, Deuel Vocational Institution, and High Desert State Prison/California Correctional Center and provide for a hemodialysis clinic at the California Substance Abuse Treatment Facility and State Prison.

Department of the Youth Authority—\$2.8 million is proposed from the General Fund for minor capital outlay projects and budget packages.

Business, Transportation, and Housing Agency

The 2004-05 capital outlay program for this agency, totals \$9.2 million.

Department of Transportation—\$100,000 will cover studies, planning, and budget packages to be funded from the State Highway Account.

California Highway Patrol—\$250,000 from the Motor Vehicle Account will fund a study to review options for consolidating headquarters personnel in Sacramento from five locations to one.

Department of Motor Vehicles—\$8.8 million is proposed from the Motor Vehicle Account, the State Highway Account, and the Motor Vehicle License Fee. This includes \$7.5 million to complete the Sacramento Headquarters 5th Floor Asbestos Removal and Seismic Retrofit project and \$1.35 million to begin the design phase of the 6th Floor Asbestos Removal, Seismic Retrofit, and Building re-skinning project.

Other Departments

Department of Food and Agriculture—\$19.7 million, which includes \$6.4 million State Highway Account and \$12.8 million lease-revenue bonds for the construction phase of the Truckee Agricultural Inspection Station project.

Military Department—\$12.3 million of which \$5 million General Fund is proposed to complete the construction of a new armory in Bakersfield in order to accommodate two new transportation units that have been assigned to that area. In addition, the federal government will contribute \$6.4 million for the new armory as well as \$836,000 for general planning purposes.

Department of General Services—

\$4.7 million is proposed from Seismic Bonds for one new seismic project, program management, and project studies.

Department of Mental Health—

\$429,000 General Fund includes \$170,000 for a minor security project at Atascadero State Hospital. The remaining \$259,000 is a fund shift for the design of satellite kitchens at Metropolitan State Hospital because the nature of these improvements is not compatible with lease-revenue financing.

Department of Health Services—

\$200,000 General Fund will be used to perform a study that will identify the Department of Health Services' future laboratory needs in Southern California.

Pay-As-You-Go Versus Long-Term Financing

The State employs two approaches to funding infrastructure: direct appropriations, also called “pay-as-you-go” funding, and long-term financing. Long-term financing includes general obligation bonds, lease-revenue bonds, leases with purchase option, or installment purchase agreements. The General Fund, special funds, and federal funds all support infrastructure either as a source of direct appropriations or, for long-term financing by paying debt service or lease costs.

Figure CO-3 displays actual expenditures for long-term financing and pay-as-you-go funding for the capital outlay program over the last six years as well as the proposed

expenditures for the budget year. The majority of the expenditures have come from the over \$25 billion of general obligation bonds that have been approved by the voters since 2000. Figure CO-4 presents the total pay-as-you-go funding by fund source over the same time period.

FIGURE CO-3

**Pay As You Go vs. Long-Term Financing
Capital Outlay Expenditures 1998-99 - 2004-05**
(Dollars in Millions)

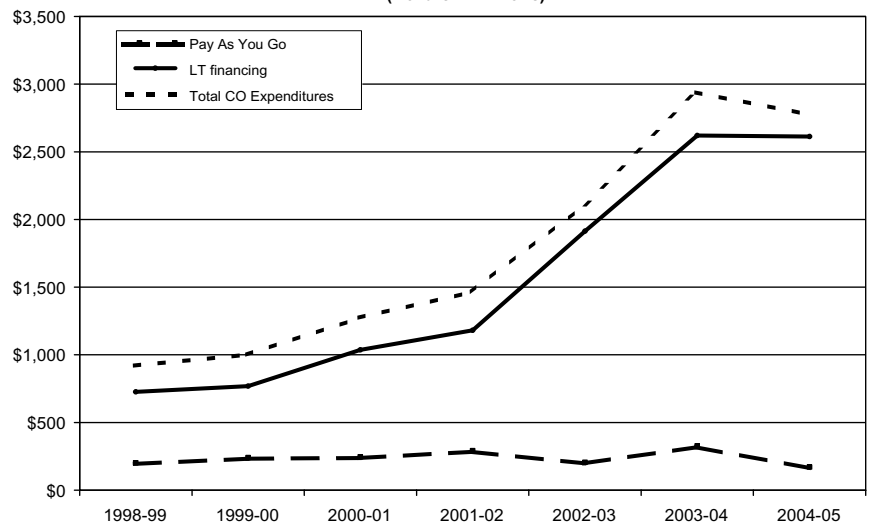
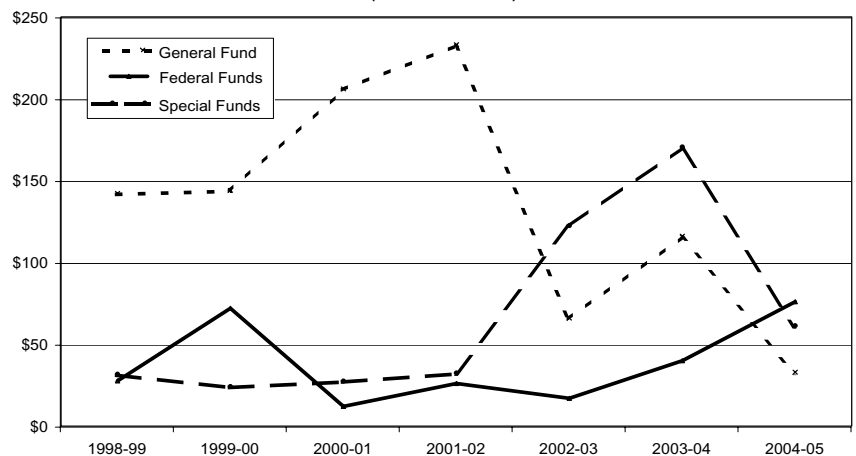


FIGURE CO-4

**Capital Outlay Expenditures by Fund Source
1998-99 - 2004-05**
(Dollars in Millions)





General Obligation Bonds

California currently owes \$27.7 billion in principal on outstanding non-self liquidating general obligation (GO) bonds as of the end of calendar year 2003. The General Fund cost for the payment of interest and redemption on these bonds is \$1.9 billion in 2003-04, and is estimated at \$3.1 billion in 2004-05. This amount could vary depending on the actual amount of bonds that are sold during the year.

Lease-Revenue Bonds

The lease-revenue method of financing projects has been used for higher education facilities, state prison construction, general purpose office buildings, and other types of projects when a lease can be created that provides a marketable security for the issuance of the bonds.

Outstanding lease-revenue bonds totaled \$6.762 billion as of November 1, 2003, and are estimated to total \$7.445 billion as of June 30, 2004, and \$8.063 billion as of

June 30, 2005. The cost for lease payments, including principal, interest, administration, and insurance, was \$569.6 million in 2002-03. These costs are estimated to be \$653.6 million in 2003-04 and \$731.7 million in 2004-05.

Debt Service

A common measure of bonded indebtedness is the ratio of net tax-supported debt to General Fund revenues. Using this measure, California's debt ratio for 2003-04 is 3.5 percent and would rise to 5 percent in 2004-05. The debt ratio for current year is unusually low as it reflects the results of a debt restructuring program that the State conducted over the previous two years. Figure CO-5 displays the historical debt service ratio as well the debt service costs for California from 1977-78 until the budget year.

FIGURE CO-5

